

# TRS Actuarial Update

House Ways and Means Education  
Committee

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Neah Mitchell Scott

Retirement Systems of Alabama



# Annual Actuarial Valuations

- ◆ Alabama law requires RSA's actuaries to complete annually an actuarial valuation that calculates:
    - ◆ The actuarial value of assets and liabilities of TRS;
    - ◆ The unfunded accrued liability of TRS; and
    - ◆ The TRS employer contribution rate to be set during the next regular legislative session.
- (See Ala. Code §§ 16-25-19(q) and 16-25-21(2)).

# Actuarial Experience Studies

- ◆ Per Alabama law, an actuarial experience study is required to be conducted every five years to set the actuarial assumptions (i.e. mortality rates, withdrawal rates, payroll growth, discount rates) to be used in the annual valuations for the next five year period. (See Ala. Code § 16-25-19(p)).
- ◆ In conducting the experience study, the actuaries compare the current demographic assumptions with the actual experience from the past five years and examine the prospective capital markets.
- ◆ Based upon this comparison, the actuaries then recommend any necessary changes to be adopted by the TRS Board.

# RSA's Actuary – Cavanaugh Macdonald

- ◆ Serve as primary actuary for 15 statewide public pension plans and various local public pension plans.
- ◆ Served as RSA's actuary for the last ten years. Will serve as actuary for the next five years after being awarded contract pursuant to a recently conducted RFP.
- ◆ All actuarial work is prepared in accordance with the principles of actuarial practice prescribed by the Actuarial Standards Board.

# RSA's Actuary – Peer Reviews

- ◆ RSA periodically hires other actuarial firms to audit the RSA valuations and experience studies prepared by Cavanaugh Macdonald.
- ◆ Most recent peer review was performed by two firms, Segal Consulting and Cheiron, who examined the FY15 Actuarial Valuation and FY15 Experience Study and presented their findings to the TRS Board in September 2016.
- ◆ Both firms found that Cavanaugh Macdonald's methods and conclusions were reasonable and complied with actuarial standards of practice.



# 2011-2015 TRS Actuarial Experience Study

# 2011-2015 Actuarial Experience Study

- ◆ RSA's actuaries recently completed a five-year actuarial experience study and made its recommendations for changes in actuarial assumptions for the next five years (FY16-FY20).
- ◆ On September 13, 2016, the TRS Board adopted these recommendations.

# Key Changes Adopted by the Board

1. Reduction of the investment rate of return from 8.00% to 7.75%, to be phased in over two years;
2. Discontinuation of the use of interest rate smoothing methodology;
3. Reduction of the payroll growth assumption from 3.25% to 3.00%; and
4. Other demographic changes (i.e. changes in mortality rates).



# Lowering the Assumed Rate of Return

- ◆ Lowering the assumed rate of return is in line with the national trend and the widespread consensus among economic experts that capital market investment returns will be lower going forward.
- ◆ The assumed rate of return is used as a discount rate for liabilities. Therefore, lowering it generally increases unfunded liabilities and raises employer costs.

# Timeline for Implementation of Actuarial Assumption Changes

## 2017 Regular Session

- **FY18 employer rates** will remain the same as they have already been calculated in 2015 valuation using prior assumptions.

## 2018 Regular Session

- First phase of lowering the assumed rate of return (8% to 7.875%) and 100% of all other assumption changes will be incorporated and reflected in **FY19 employer rates**.

## 2019 Regular Session

- Second phase of lowering the assumed rate of return (7.875% to 7.75%) will be incorporated and reflected in **FY20 employer rates**.

# Projected Impact of Actuarial Assumption Changes for TRS

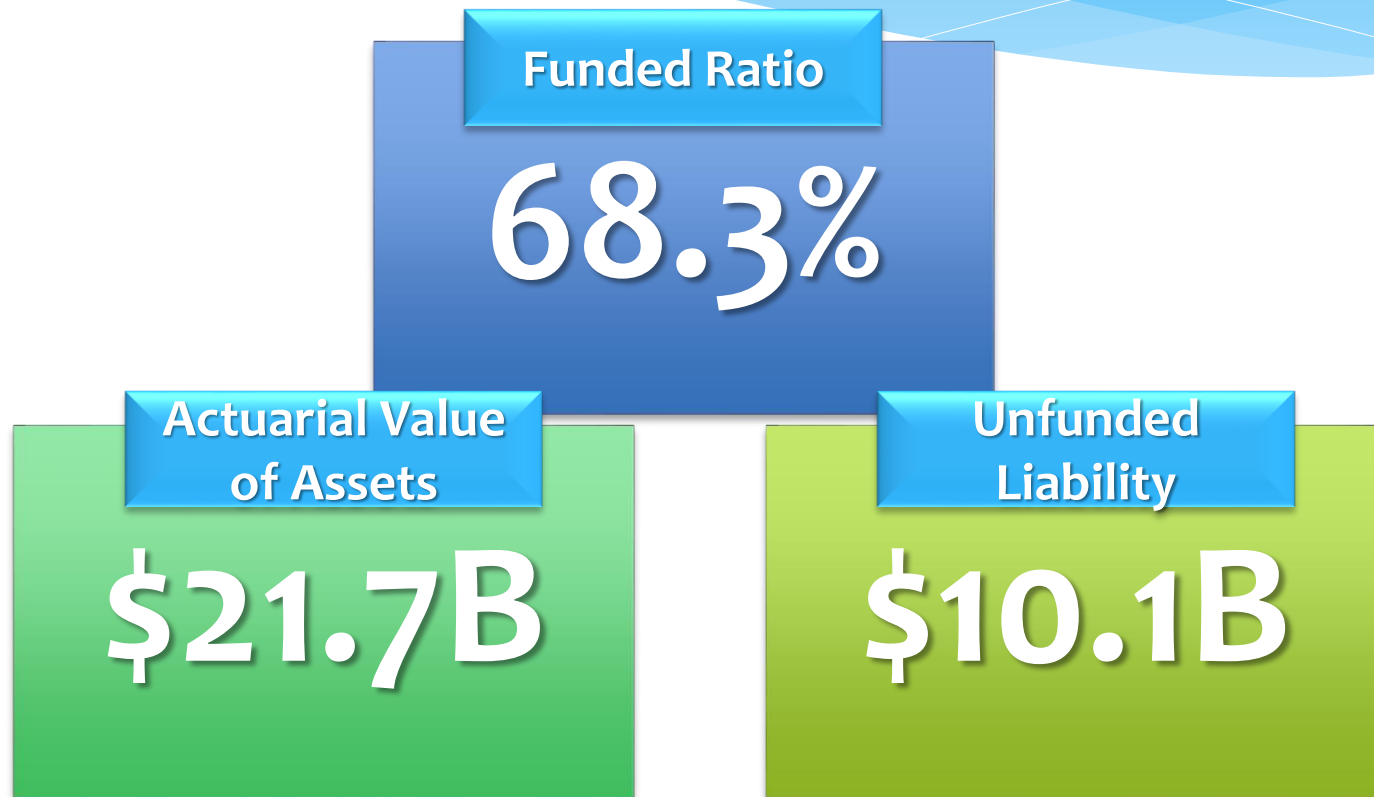
Metric	Before All Changes	After Demographic Changes Only	After All Changes
UAAL	\$10,104,563	\$10,484,419	\$11,129,366
Funded Ratio	68.3%	67.5%	66.1%
Tier I Rate	12.24%	12.32%	13.13%
Tier II Rate	11.01%	11.30%	12.07%

The above table highlights the impact of the actuarial assumption changes adopted by the TRS Board based upon the FY15 valuation. These results are for illustrative purposes only. The actual impact will be determined by the FY16 and FY17 valuations.



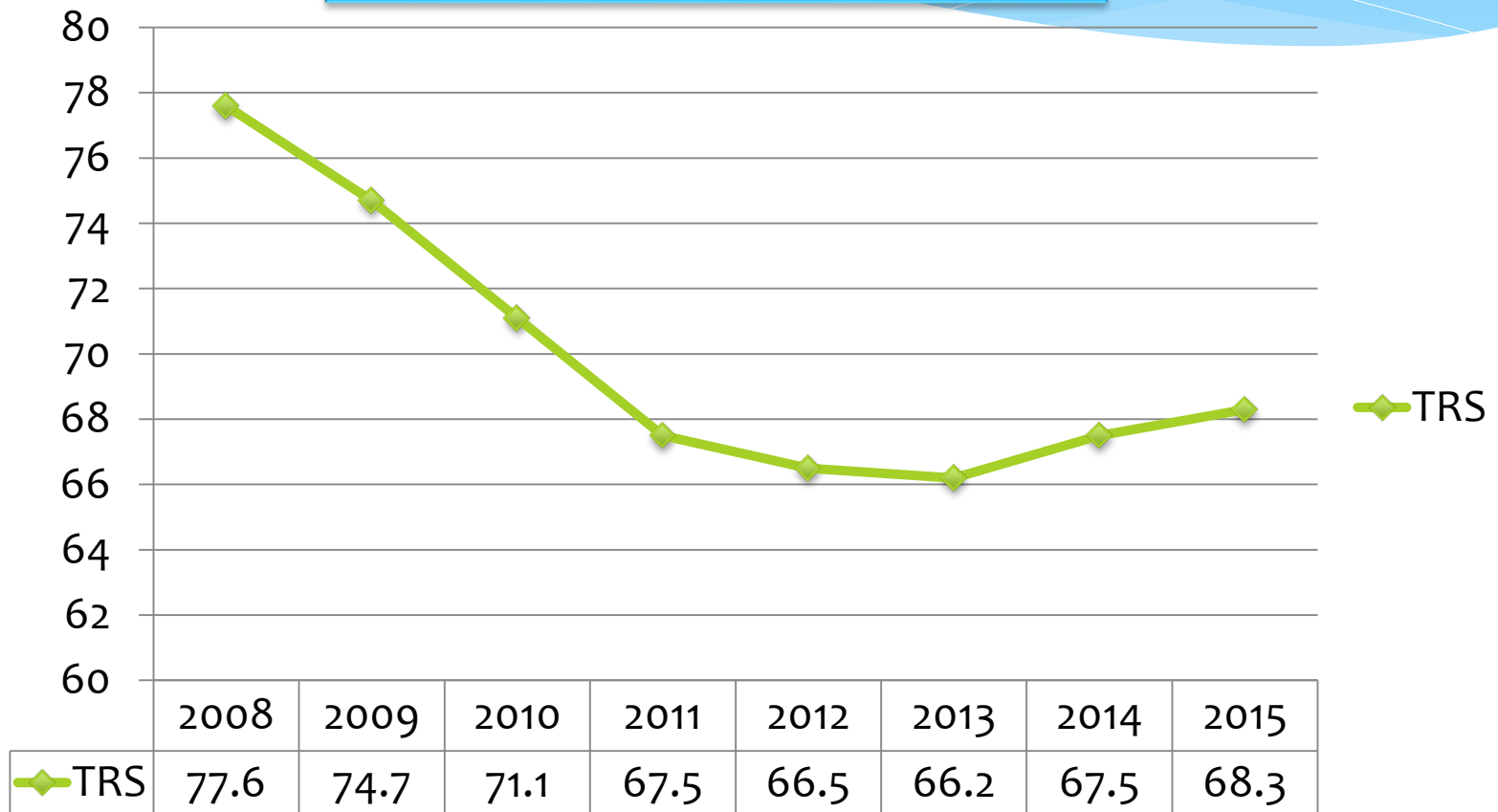
# 2015 TRS Actuarial Valuation

# 2015 Actuarial Valuation Numbers



# Funded Ratio Is Increasing

TRS Funded Ratio 2008-2015



# 2015 Actuarial Valuation Membership Data

Tier I Members

113,362

Tier II Members

22,624

Retirees and  
Beneficiaries

89,332

Active Member Average Pay

\$46,313

Retiree Benefits  
Paid

\$1.99B

# FY18 TRS Employer Contribution Rates

	FY17 (Current)	FY18 (Requested)	Increase from FY17
<b>Tier I</b>	12.01%	12.24%	0.23%
<b>Tier II</b>	10.82%	11.01%	0.19%
<b>Total Employer Cost*</b>	\$769.2M	\$781.7M	\$12.5M
<b>Est. Amt. from ETF*</b>	\$500.0M	\$508.1M	\$8.1M

\* These estimated amounts are not final and are subject to change prior to submission to the EBO.



# Questions?

**Neah Mitchell Scott**  
Legislative Counsel  
(334) 517-7180  
[neah.scott@rsa-al.gov](mailto:neah.scott@rsa-al.gov)